

IMF Executive Board Approves US\$3.6 Billion Stand-By Arrangement for Iraq

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The Executive Board of the International Monetary Fund (IMF) today approved a two-year Stand-By Arrangement for Iraq for an amount equivalent to SDR 2.38 billion (about US\$3.64 billion) to cover the country's balance of payments needs. The Board's approval makes an amount equivalent to SDR 297.1 million (about US\$455 million) immediately available to the Iraqi authorities.

The new arrangement follows a 15-month program supported by a Stand-By Arrangement, which was approved by the executive Board on December 20, 2007 and expired on March 18, 2009 ([Press Release No 07/301](#)). The successor arrangement is designed to support Iraq's economic program over the next 24 months through February 23, 2012.

Following the Executive Board's discussion of Iraq, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

“Iraq has made substantial progress in rebuilding its economy and consolidating macroeconomic stability under difficult security and political conditions. The economy was severely affected in 2009 by the drop in international oil prices. The current account and the overall balance of payments are expected to remain in deficit in 2010 and 2011. Similarly, the fiscal position is projected to record large, albeit declining, deficits in both years, before returning to a surplus position in 2012.

“Against this background, the economic program for 2010 and 2011 aims at providing a sound macroeconomic framework during a period of economic and political uncertainties. Consistent with this program, the 2010 budget adopted by parliament seeks to contain current spending while increasing investment to address Iraq's large rehabilitation needs and improve public service delivery. Monetary and exchange rate policies will continue to aim at keeping inflation low.

“The economic program will also help the authorities move forward with their structural reform agenda. Strengthening the public financial management system is critical to improving the allocation and execution of public resources, as well as enhancing transparency and accountability in the management of the country's natural resources. The program also incorporates banking sector reforms, including a restructuring of state-owned banks, with a view to improving the financial services required by a growing economy.

“The authorities intend to treat the new Stand-by Arrangement as precautionary should oil prices turn out to be significantly higher than envisaged, or investment execution be lower than budgeted.

“The authorities have made significant progress in their external debt negotiations with official and private creditors. They remain committed to completing the restructuring of remaining non-Paris Club claims,” Mr. Kato stated.

ANNEX

Program Summary

The main objectives of the program are to maintain macroeconomic stability during a period of high economic and political uncertainties (parliamentary elections are scheduled for March 7, 2010), and to provide a framework for deepening structural reforms.

While Iraq’s medium-term economic outlook remains favorable because oil prices and production are projected to increase in the coming years, based on conservative oil price assumptions the current account and overall balance of payments are expected to remain in deficit in 2010 and 2011. Similarly, Iraq’s fiscal position is projected to record large, albeit declining deficits in both years, before returning to a surplus position in 2012.

Against this background, the authorities have designed an economic program for the period through end-2011 and have requested the Fund to support it with a new two-year Stand-By Arrangement. The authorities view the new program primarily as a way to provide a sound macroeconomic framework during a period of high economic and political uncertainties. The authorities’ fiscal program seeks to contain current government spending while catching up on much-needed investment spending. The budget deficit is targeted to decline to 19 percent of GDP in 2010 and further to 6 percent in 2011, before shifting back into surplus in 2012. Monetary and exchange rate policies will continue to aim at keeping inflation low.

The new program will also aim to advance key reforms in the areas of public financial management (PFM) and financial sector development, in close coordination with a Development Policy Loan (DPL) provided by the World Bank. Both operations focus on advancing PFM and bank restructuring action plans prepared by the authorities during 2008 and 2009 with the assistance of Fund and World Bank staff.